

APPROPRIATIONS AND REVENUE SOURCES
INVESTMENTS

CAK
(LOCAL)

Introduction

The purpose of this document is to set forth specific investment policy and strategy guidelines for the College District in order to achieve the goals of safety, liquidity, yield, and public trust for all investment activity. The Board shall review its investment policy annually. This policy serves to satisfy the statutory requirement of the Public Funds Investment Act, Texas Government Code Section 2256, to define, adopt, and review a formal investment strategy and policy.

Diversity

The investments shall be diversified by security type and maturity. The investment portfolio shall be diversified in terms of investment instruments, maturity scheduling, and financial institutions to reduce risk of loss resulting from overconcentration of assets in a specific class of investments, specific maturity, or specific issuer.

Investment Strategy

Buy and sell decisions shall be primarily influenced by cash flow in each of the respective funds. The fundamental investment strategy of the College District shall be to buy an investment and hold it until its maturity. However, because of changes in market conditions and changes in anticipated cash flow, there may be instances where decisions shall need to be made to liquidate the investment prior to its maturity.

The investment officer shall be given the responsibility for putting into place an investment portfolio, which serves the College District's financial requirements and also attempts to protect the College District against market condition changes. It is the intent of this document to give the investment officer the latitude to purchase investments within the scope outlined.

When the investment officer makes decisions in regard to purchasing securities for the portfolio, the officer must interpret the interest rate cycle and may choose to make relatively long-term purchases for the purpose of "locking in" a favorable interest rate or may choose to make short-term purchases if the investment officer anticipates interest rates to be more favorable in the future. The market value of each investment in the College District's portfolio shall be calculated not less than quarterly, on the following basis.

Time Accounts and
Sweep Accounts

The market value of these short-term investments shall be the face amount of the account.

Investment Pools

Monthly statements are received from the investment pools, which show the amount on deposit and the market value of the pool as a percentage of the book value. The market value of the investment pools shall be the product of these two figures.

Treasury Notes

The market value of treasury notes shall be calculated as the product of the face value of the note and the bid price for that note as

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quoted in the *Wall Street Journal* or shall be obtained from a broker other than the broker who sold the security to the College District.

Treasury Bills

The market value of treasury bills shall be the face value of the bill discounted at the bid yield as quoted in the *Wall Street Journal* for the appropriate number of days or shall be obtained from a broker other than the broker who sold the security to the College District.

Agencies and
Corporate

For these securities listed in the *Wall Street Journal*, the valuation method shall be the same as those of the treasury securities. For those not listed, the market value shall be obtained from a broker other than the broker who sold the security to the College District.

Settlement of all transactions, except investment pool funds, shall be on a delivery basis.

Certificates of
Deposit

The market value of each certificate of deposit shall be the amount at which it is issued, adjusted to market value annually as of August 31.

Maximum Maturities

The College District shall normally limit final maturities on any securities to five years or less. To the extent possible, the College District shall attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the College District shall not directly invest in securities maturing more than five years from the date of purchase. Excluding any bond proceeds, the maximum average dollar-weighted maturity shall be 500 days. For bond proceeds, the average dollar-weighted maturity will be governed by the anticipated timing of the use of the proceeds in conjunction with consideration of arbitrage issues. The College District shall strive to minimize the average dollar-weighted maturity of the bond proceeds within the confines of those two criteria.

Funds / Strategies

Investments of the following fund categories shall be consistent with this policy and in accordance with the strategy defined below.

Operating Funds

Investment strategies for operating funds (including any commingled pools containing operating funds) shall have as their primary objective safety, investment liquidity, and maturity sufficient to meet anticipated cash flow requirements.

Debt Service

Investment strategies for debt service funds shall have as their objective sufficient investment liquidity to timely meet debt service payment obligations in accordance with provisions in the bond documents. Maturities longer than one year are authorized provided legal limits are not exceeded.

Debt Service
Reserve

Investment strategies of debt service reserve funds shall have as their primary objective the generation of a dependable revenue stream from high-quality securities in accordance with provisions in

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the bond documents. Maturities longer than one year are authorized provided legal limits are not exceeded.

Capital Projects

Investment strategies for capital project funds shall have as their objective sufficient investment liquidity to timely meet capital project obligations. If the College District has funds from bond proceeds, they shall be invested in accordance with provisions in the bond documents. Maturities longer than one year are authorized provided legal limits are not exceeded.

Objectives

The objectives and priorities of the investment policy of the College District are as follows:

1. To comply with the laws of the state of Texas as defined in Government Code 10 (Chapter 2256); known as the "Public Funds Investment Act."
2. To provide for the safety of principal of all College District funds.
3. To provide sufficient funds to meet the cash needs of the continuing operations of the College District.
4. To earn the highest possible rates of return on investments consistent with this policy.
5. To allow for diversification in the types, issues, and maturities of investments so as to avoid incurring unreasonable and avoidable risks.
6. To maintain the highest professional and ethical standards as custodians of the public trust.
7. To invest with well-established and financially secure institutions approved to do business with the College District.

Responsibility and Control

Delegation Authority

The vice president for business services is designated as investment officer of the College District and is responsible for investment decisions and activities. The vice president for business services shall establish and maintain written procedures for the operation of the investment program, consistent with this investment policy. The vice president for business services shall attend at least ten hours of training relating to these duties every two years, beginning on the first day of the College District's fiscal year. Training must be from an independent source and not the College District.

If the vice president for business services is incapacitated or otherwise unavailable, the College President may designate in writing an interim investment officer.

Interest Rate Risk

To reduce exposure to changes in interest rates that could adversely affect the value of investments, the College District shall use final and weighted-average-maturity limits and diversification.

The College District shall monitor interest rate risk using weighted average maturity and specific identification.

Internal Controls

Internal control is the process by which the Board and management obtain reasonable assurance as to achievement of specified objectives. It consists of interrelated components with integrity, ethical values and competence, and the control environment serving as the foundation for establishing objectives, risk assessment, information systems, control procedures, communication, managing change, and monitoring.

The investment officer is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the College District are protected from loss, theft, or misuse. Accordingly, the investment officer shall establish a process for annual independent review by an external auditor to ensure compliance with policies and procedures. The external auditor's report shall be delivered directly to the President of the Board. The internal controls shall address the following points:

1. Control of collusion.
2. Separation of transaction authority from accounting and recordkeeping.
3. Custodial safekeeping.
4. Avoidance of bearer-form securities.
5. Clear delegation of authority.
6. Written confirmation for telephone transactions for investments and wire transfers.

Prudence

The standard of prudence to be used by investment officials shall be the "prudent person" standard and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with procedures and this investment policy, and exercising due diligence, shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion, and the liquidity and the sale of securities are carried out in accordance with the terms of this policy. Investments shall be made with the judgment and care, under circumstances then prevailing, which persons of prudence, discretion, and intelligence exercise in the

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management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.

**Ethics and Conflict
of Interest**

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program or that could impair the ability to make impartial decisions. Employees and investment officials shall disclose any material interests in financial institutions with which they conduct business. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. Employees and officers shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of their entity. An investment officer who has a personal business relationship with any entity seeking to sell an investment to the College District, or who is related in the second degree by marriage (affinity) or blood relations (consanguinity) to an individual seeking to sell an investment to the College District, is required to file a statement disclosing the relationship with the Texas Ethics Commission and the Board.

Training

Training of appropriate Board members, the President, and the vice president for business services shall occur on an annual basis as provided by the Coordinating Board.

**Safekeeping and
Custody**

Authorized
Financial Dealers
and Institutions

The investment officer shall invest College District funds with any or all of the following institutions or groups consistent with federal and state law and the current bank depository contract:

1. Depository bank;
2. Another state or national bank with a main or branch office in Texas that is insured by the Federal Deposit Insurance Corporation (FDIC);
3. Savings and loan associations with main or branch offices in Texas that are insured by the Federal Savings and Loan Insurance Corporation (FSLIC);
4. Public funds investment pools; or
5. Government securities brokers and dealers.

Sellers of
Investments

The College District shall maintain a list of authorized brokers/dealers, qualified representatives of a business organization, and financial institutions that are approved for investment purposes.

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Prior to handling investments on behalf of the College District, a broker/dealer or a qualified representative of a business organization must submit required written documents in accordance with law.

Representatives of brokers/dealers shall be registered with the Texas State Securities Board and must have membership in the Securities Investor Protection Corporation (SIPC), and be in good standing with the Financial Industry Regulatory Authority (FINRA).

The investment officer of the College District shall not buy securities from a person who has not delivered to the College District an investment policy affidavit acknowledged by the principal of the organization.

**Suitable and
Authorized
Investments**

From those investments authorized by law and described further in CAK(LEGAL) under Authorized Investments, the Board shall permit investment of College District funds, including bond proceeds and pledged revenue to the extent allowed by law, in only the following investment types, consistent with the strategies and maturities defined in this policy:

Investment Types

1. U.S. Government obligations such as treasury bills, treasury notes, treasury bonds, discount notes, and debentures.
2. U.S. Government agency obligations such as Farm Credit System, Farmers Home Administration, Federal Home Loan Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, Small Business Administration, Student Loan Marketing Association, and Tennessee Valley Authority.
3. Open time account with the depository institution (secured by a pledge of approved securities).
4. Certificates of deposit (secured by a pledge of approved securities).
5. Savings and loan association deposits (secured by a pledge of approved securities).
6. Prime commercial paper that has a stated maturity of 270 days or less and is rated not less than A-1 or P-1 by at least two nationally recognized credit rating agencies.
7. Investment pools such as TexPool operated by the Texas Comptroller's Office and Lone Star operated by the Texas Association of School Boards. These investment pools must meet the requirements of Section 2256.06 of the Public Funds

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Investment Act and must be rated AAA or AAA-M by at least one nationally recognized rating service.

8. Cash management and fixed income funds sponsored by organizations exempt from federal income taxation under Section 501(f), Internal Revenue Code of 1986 (26 U.S.C. Section 501 (4)).
9. Corporate bonds, debentures, or similar debt obligations rated by a nationally recognized investment rating firm in one of the two highest long-term rating categories, without regard to graduation within those categories.
10. Flexible repurchase agreements, authorized only for the investment of bond proceeds. Repurchase agreements must meet the requirement of the Public Funds Investment Act. They must be obtained through a bid process conducted by the College District's financial adviser. For this limited purpose, the successful bidder shall be added to the list of authorized dealers and institutions.

Collateralization

In accordance with state law, full collateralization shall be required on certificates of deposit and open time deposits from banks and savings and loan associations.

Reports

For each quarter of its fiscal year, the College District shall provide to the Board a report on its investment activities as required by the Public Funds Investment Act.

Rating Changes

At the end of each quarter of its fiscal year, the College District shall monitor the current rating of each U.S. government agency obligation, commercial paper, and investment pool in its portfolio.

The College District shall seek current rating information from a source that is independent from the entity that issued the security and from the company that sold the security to the College District.